

MGT 08-06F

January 13, 1998

Audit Committee Members:

Mr. Eugene K. Pettis, Chairman
Mr. Frank Williamson, Jr., Member
Mr. Mitchell W. Berger, Member
Mr. William E. Graham, Member
Mr. Richard A. Machek, Member
Ms. Barbara A. Markham, Ex Officio
Mr. James D. Yager, Ex Officio

Re: Follow-Up Report
Audit of the September
1996 Surplus Property
Auction
Audit #98-02

This is a follow-up report of the implementation status of the recommendations made by the Office of Inspector General in the Audit of the September 1996 Surplus Property Auction (the "Audit"), Audit #97-06, issued on December 4, 1996. In order to determine the implementation status of the Audit recommendations and to assess the effectiveness of management action towards achieving their objectives, we performed a review of the September 1997 Surplus Property Auction.

The September 1997 auction represents a significant improvement over the September 1996 auction with regard to matters that were identified in the Audit. Of the ten recommendations made in the Audit, five have been implemented, two were partially implemented, one was not applicable, and two were not implemented.

This follow-up report was prepared by Chris Flierl who is available to answer any questions that you may have regarding it.

Sincerely,

Allen Vann
Inspector General

AV/cf

c: Samuel E. Poole III
Michael Slayton

South Florida Water Management District

Follow-up Review

Audit of the September 1996 Surplus Property Auction

BACKGROUND

On December 4, 1996, the Office of Inspector General issued the Audit of the September 1996 Surplus Property Auction, Audit #96-06 (the "Audit"). The Audit was performed in order to determine:

- compliance with applicable District policies, procedures, guidelines, and Florida Statutes, and
- the extent to which the District monitors and supervises the auctioneer contract and ensures that there are adequate and effective internal controls over the process.

The Audit report contained ten recommendations. Management concurred with all of the recommendations and agreed to implement them at various dates between December 15, 1996 and December 1, 1997.

OBJECTIVES, SCOPE AND METHODOLOGY

Generally Accepted Government Auditing Standards (GAGAS) and the Standards for the Professional Practice of Internal Auditing (the "Standards") require that we perform follow-up audits to determine that agreed upon management action was taken and is achieving the desired results, or that senior management, or the Governing Board has assumed the risk of not taking appropriate action on reported findings. Follow-up audits assess the adequacy, effectiveness, and timeliness of action taken by management on reported findings. Much of the benefit from audit work is not in the findings reported or the recommendations made, but in their effective implementation and resolution.

Accordingly, we performed follow-up audit procedures which included:

- discussing the current implementation status with the appropriate levels of management responsible for taking action,
- evaluating the adequacy and effectiveness of the action taken by

- management by reviewing the September 1997 auction,
- assessing the adequacy of documentation supporting the action taken, and
- applying other follow-up audit procedures as deemed necessary and appropriate.

Our review used the follow-up standards described below for assessing the extent of corrective action, if any:

Implemented - Action has been taken to adopt the recommendation or an alternative approach was taken that achieved the same objective.

Partially Implemented - We observed that action was in process that will implement the recommendation or the recommendation's objective.

Not Implemented - There was insufficient evidence of implementation action being taken or District management disagreed with the recommendation.

Not Applicable - Alternative action was taken or there was a substantial change in circumstances that rendered the recommendation moot.

SUMMARY

The September 1997 auction represents a significant improvement over the September 1996 auction with regard to matters that were identified in the Audit. Of the ten recommendations that were made in the Audit, five have been implemented, two were partially implemented, one was not applicable, and two were not implemented.

The improvements over last year's auction included the fact that all of the assets that the District intended to sell were available for sale at the auction site. The District's Fixed Asset Guidelines were revised to make donations of surplus property consistent with Florida Statute. Property Management independently verified auction sales amounts on a test basis. The auctioneer contract was revised to give the auctioneer a more reasonable period of time to remit the sales proceeds and prepare a full accounting of the auction. The contract was further amended to require District authorization if the auctioneer planned to exceed the \$3,500 maximum out-of-pocket expense. Finally, no mathematical errors were discovered in the *Auction Settlement*, which is the auctioneer's accounting of the results of the auction. A discount given to a nonprofit organization was computed correctly.

With regard to a recommendation to obtain evidence of the required insurance and

surety bond, we found that while considerable effort was expended toward this end for the most recent auction, both the *Certificate of Insurance* and surety bond that were obtained were incomplete as of auction day.

The other recommendation not implemented concerns accountability over surplus property. We had recommended that a *Property Control Form* be completed for all items of surplus property to ensure that Property Management maintained accountability over assets in its custody. We noted that there were two items of miscellaneous equipment on the *Surplus Tangible Property List* that did not have a completed *Property Control Form*. The more significant of the two is a Chisholm-Moore 5-ton hoist. We were unable to determine if the hoist was sold or if it is still in the District's possession.

Of the partially implemented recommendations, one has to do with controls over discounts to other governments and nonprofit organizations. The *Surplus Property Donation Guidelines* were revised to require that the Property Manager, or his delegatee, provide signatory release of all discount donations, however, we were not provided with evidence that the required signatory release was actually given.

The other partially implemented recommendation required that the auctioneer be given more than three days to remit the auction proceeds and *Auction Settlement* and assess interest charges for every day past the agreed upon time limit. While the auctioneer contract was amended to give the auctioneer seven days to remit the proceeds, there is no provision for interest if the auctioneer is late.

FOLLOW-UP OBSERVATIONS BY RECOMMENDATION

- 1. Procedures should be established to ensure that all assets approved for sale are at the auction site.**

Status: Implemented

Management Action/Auditor Comments: Based on the results of our testing, we have concluded that management has established procedures that ensured that all assets approved for sale were at the site of the September 27, 1997 auction.

The finding also addressed Governing Board approval of all assets to be sold at auction. We did identify one item, out of approximately 200, that was sold at auction without Governing Board approval. The item was a Calcomp Digitizer that was purchased for \$6,794 and was sold at auction for \$145. This appears to have been an oversight on Property Management's part.

2. A Property Control Form should be completed in advance for each fixed asset sold.

Status: Not Implemented

Management Action/Auditor Comments: The *Property Control Form* is the source document used to transfer assets to the Property Manager, thus promoting accountability over assets that are identified as surplus. The completion of a *Property Control Form* ensures that surplus property is designated as such in the fixed asset records. We judgmentally selected seven assets from the *Surplus Tangible Property List* and requested to see completed *Property Control Forms* for those assets. The selections represented items of miscellaneous equipment without assigned asset numbers. These types of assets were most likely not to have had a *Property Control Form* completed for them. There were a total of 31 of this type of asset on the approved *Surplus Tangible Property List*. We were provided with a completed *Property Control Form* for each of the seven items selected.

While testing to ensure that all items of surplus property were actually sold at the auction, we noted that there were two items of miscellaneous equipment on the *Surplus Tangible Property List* that were not included on the *Auction Settlement*. Further investigation revealed that neither of these items had a completed *Property Control Form*. The more significant of the two is a Chisholm-Moore 5-ton hoist. We were unable to determine if the hoist was sold or if it is still in service at a District location. We recommend that Property Management determine whether the asset was sold or is in service. If it is in service, a *Property Control Form* should be completed that transfers the hoist to the user division.

3. For any unusual and significant items, such as the large diesel engines that power District pump stations, the Property Manager should advertise those items in advance of the auction in specific markets that would attract the greatest number of potential buyers.

Status: Not Applicable

Management Action/Auditor Comments: No such items were offered for sale at this year's auction; therefore, there was no opportunity to confirm implementation of the recommendation.

4. **Control procedures should be established to ensure that the \$500 discount, given to other governments and nonprofit organizations, is not exceeded.**

Status: Partially Implemented

Management Action/Auditor Comments: During the September 27, 1997 auction, one discount in the amount of \$500 was given. The *Surplus Property Guidelines* were revised to require that the Property Manager or delegatee review all bills of sale involving donations and provide signatory release of same. We were not provided with any evidence of the review or signatory release. Notwithstanding, we have concluded that the discount was appropriate and calculated correctly.

5. **The District's Fixed Asset Guidelines should be updated to reflect the most current statute.**

Status: Implemented

Management Action/Auditor Comments: While not revised prior to the September 27, 1997 auction, the District's *Fixed Asset Guidelines* were updated as of November 15, 1997.

6. **Obtain evidence of the required insurance and surety bond and develop procedures to ensure that this does not occur in the future.**

Status: Not Implemented

Management Action/Auditor Comments: Substantially more effort was put into obtaining evidence that the auctioneer had the required insurance and bond for the September 1997 auction than we noted for the September 1996 auction. However, both the *Certificate of Insurance* and the surety bond that were provided for the September 27, 1997 auction were incomplete.

The *Certificate of Insurance*, received on September 4, did not include a policy number. Instead there was a "TBA" in the space provided for a policy number. The lack of a policy number could mean that the insurance agent hasn't found a policy. There was nothing in the file to indicate that this was followed-up with the agent prior to the auction taking place. The *Certificate of Insurance* received on October 30 did have a policy number, however, the auction had already taken place.

Evidence that the auctioneer had obtained the required surety bond consisted of a fax copy of a surety bond that wasn't signed by the auctioneer. Additionally, the surety bond was not received at least two weeks prior to the auction as stipulated per the auctioneer contract.

Future auctioneer contracts will be subject to review by Risk Management; therefore, this situation should not reoccur.

7. **Change the contractual requirement to remit the proceeds in three working days to something more realistic and assess interest charges for every day past the agreed upon time limits.**

Status: Partially Implemented

Management Action/Auditor Comments: The Auctioneer contract was amended to require that the auctioneer remit the proceeds in seven days as opposed to three days as originally required. The contract was not amended to assess any late fees or charges.

8. **Property Management should independently verify auction sales amounts either through examination of the tape recording that is made of the auction or by independently recording winning bids at the auction.**

Status: Implemented

Management Action/Auditor Comments: Management verifies auction sales amounts by selecting various assets from the tape recordings and then comparing the sales price to the Auction Settlement.

9. **Appropriate officials of the District should document the reasons that the \$3,500 maximum out-of-pocket expense was exceeded and provide required approval.**

Status: Implemented

Management Action/Auditor Comments: The District amended the auctioneer contract to require written approval if the out-of-pocket expenses exceed \$3,500. Property Management, on August 14, 1997, gave written approval for estimated out-of-pocket expenses of \$4,570. Actual out-of-pocket expenses incurred totaled \$4,369.

10. **Property Management should review the Auction Settlement for mathematical accuracy and for other possible errors that could occur.**

Status: Implemented

Management Action/Auditor Comments: Property Management prepared a *Results of Sale of Surplus Tangible Property* spreadsheet that totals auction sales. The spreadsheet agreed to the *Auction Settlement* without exception. Additionally, a spreadsheet was prepared by Property Management that lists the out-of-pocket expenses paid by the auctioneer. The spreadsheet total agreed to the total out-of-pocket expenses included in the *Auction Settlement*.